

2020 Budget Notes

Toronto Atmospheric Fund

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What we do

Toronto Atmospheric Fund's (TAF) mission is to accelerate solutions to climate change and improve air quality in collaboration with non-government organizations, governments at all levels, corporations, utilities, neighbourhood organizations, academic institutions, investors and other stakeholders by demonstrating, de-risking, and helping scale up the adoption of social, financial, policy and technological innovations that reduce greenhouse gas emissions.

Why we do it

TAF's ultimate goal is to achieve carbon neutrality by 2050 in the Greater Toronto and Hamilton Area (GTHA). This target isn't simply another milestone -- it's a vision for a climate-smart urban region that functions within its environmental means and is a leader among climate-friendly urban centres around the world.

Who we serve

Strategic Contributions

- Public Sector Institutions
- City & Agency Staff

Beneficiaries

- Businesses
- Institutions and non-profit organizations
- Residents

Strategic Program Design & Delivery

- High Rise Property Management
- Non-Profit Organizations
- Large Event Attendees
- City & Agency Staff

Beneficiaries

- Businesses
- Institutions and non-profit organizations
- Residents

Investment of Assets

- Businesses with low-Carbon projects
- Chief Financial Officer
- Investment Management Firms
- Provincial & Federal Governments.
- City Staff

Beneficiaries

- Businesses
- Residents
- Institutions and non-profits

Budget at a glance

STAFF RECOMMENDED OPERATING BUDGET

\$Million	2020	2021	2022
Revenues	\$5.6	\$5.8	\$5.9
Gross Expenditures	\$5.6	\$5.8	\$5.9
Net Expenditures	\$0.0	\$0.0	\$0.0
Approved Positions	13.0	13.0	13.0

STAFF RECOMMENDED 10-YEAR CAPITAL PLAN




\$Million	2020	2021-2029	Total
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Toronto Atmospheric Fund has no capital budget

Key service outcomes

Outcomes	Description
Strategic grants to non-profit organizations and TAF projects with capacity to reduce Greenhouse Gas (GHG) emissions by at least 1 million tonnes within 20 years.	TAF has established three strategic priorities for grant-making by focusing on the largest sources of GHG emissions in the GTHA: deep energy efficiency for existing buildings, net zero new construction, and electrification of transportation. Approval by TAF's Board following active cultivation of projects and expert review by TAF's Grants & Programs Committee allows implementation of excellent projects and transfer of knowledge and insights to key stakeholders in the public and private sectors.
Investment in projects and companies that are aligned with TAF's mandate and mobilize financial capital for urban low-carbon solutions.	Investment of TAF's endowments, in compliance with the Council-approved Statement of Investment Objectives & Principles, provides a risk-adjusted return and demonstrates to other investors the viability of low-carbon solutions including retrofits, net zero new construction, renewable energy and electric mobility.
Key policies and programs are adopted and implemented that drive GHG reduction and other benefits.	Key stakeholders are engaged in developing and advocating strategically selected policies and programs that will drive down GHG emissions and deliver other benefits including improved health, job creation and economic value including building codes, the federal Clean Fuel Standard, and regulated conservation/demand management programs.

Goals and metrics

Planned Activities to Achieve Outcomes		2018 Actual	2019 Proj. Actual	2020 Target	Status
	Invest the endowments to generate returns and impact (Investments)	7	7	15	●
	Effective governance (Board, Committee and other Advisory meetings)	20	25	25	●
	Support projects that accelerate adoption of low-carbon solutions (Grants and Programs)	26	18	24	●

Our experience and success

- Since 1991, TAF has provided over \$60 million in grants and financing to support the City of Toronto and its residents and businesses in reducing air pollution and GHG emissions
- As of 2017, TAF's mandate was expanded to the Greater Toronto and Hamilton Area (GTHA) drawing on the Ontario endowment.
- TAF co-developed TransformTO, Toronto's Council-approved plan for how to achieve GHG reduction targets of 30% by 2020 and 80% by 2050, and published the first-ever GHG emissions inventory for the GTHA.
- Through prudent investing, including in projects and companies aligned with our mandate, TAF has delivered significant social, environmental and economic value, and covered all its operating expenses with no draw on the City or Provincial tax base
- TAF will receive a \$40 million endowment from the Government of Canada, via the Federation of Canadian Municipalities; this is part of a \$350 million federal contribution to the Low Carbon Cities Canada initiative incubated by TAF to endow six TAF-like centres along with a Green Municipal Fund endowment

Key challenges and risks

- Climate solutions require long-term commitments and are challenging to advance in short-term political and market cycles.
- Public market volatility can impair investment returns and it takes significant time/effort to increase the allocation to Direct Investments which are less volatile and more aligned with TAF's mandate.
- Balancing demands and capacity in order to maintain TAF's reputation for excellence and staff retention.

Priority actions

- Focus the majority of TAF's efforts and funding on three major opportunities for carbon reduction: retrofit of existing buildings, net zero new construction and electrification of transportation
- Increase GHG reductions across GTHA by raising profile of TAF and City of Toronto accomplishments, insights and expertise
- Accelerate the implementation of high-impact low-carbon projects through granting and capacity-building throughout the GTHA
- Quantify and emphasize the multiple benefits of climate action -- economic, social and environmental -- to build robust collaborations and programs
- Attract external resources and establish strategic partnerships to enhance impact

Key service deliverables

- Design, develop and implement the Business Plan throughout the Greater Toronto and Hamilton Area (GTHA)
- Provide funding and support to non-profit organizations to develop and implement high-impact projects related to low-carbon buildings and electrification of transportation, including energy efficiency retrofits, renewable energy generation, policy reform, community engagement and capacity-building, and other innovative approaches.
- Deploy the new \$40 million endowment provided by the Government of Canada, via the Federation of Canadian Municipalities and manage a prudent and diversified investment portfolio with oversight by TAF's Board and Investment Committee and in compliance with Council-approved Statement of Investment Objectives & Principles and Target Portfolio which aims to increase Direct Investments and diversity Fixed Income holdings
- Working with key stakeholders, advance the development and adoption of policies and programs that can accelerate urban greenhouse gas reductions
- Support TAF's Board, Committees and staff who provide good governance and accountability to the City of Toronto, Province of Ontario and other supporters.

RECOMMENDATIONS

The City Manager and Chief Financial Officer and Treasurer recommend that:

1. City Council approve the 2020 Staff Recommended Operating Budget for Toronto Atmospheric Fund of \$5.630 million gross, \$0.0 million net for the following services:

Service:	Gross (\$000s)	Net (\$000s)
Toronto Atmospheric Fund	5,630.0	0.0
Total Program Budget	5,630.0	0.0

2. City Council approve the 2020 Staff Recommended Operating Budget for Toronto Atmospheric Fund and associated staff complement of 13.0 positions, entirely comprised of operating service delivery positions.

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2020 STAFF RECOMMENDED OPERATING BUDGET

2020 OPERATING BUDGET OVERVIEW

Table 1: 2020 Staff Recommended Operating Budget by Service

(\$000s)	2018 Actual	2019 Projected Actual*	2020 Base Budget	2020 New / Enhanced	2020 Staff Rec'd Budget	Change v. 2019 Projected Actual	
						\$	%
By Service	\$	\$	\$	\$	\$	\$	%
Revenues							
Investment Income and External Fundraising	2,917.3	5,176.0	5,630.0		5,630.0	454.0	8.8%
Total Revenues	2,917.3	5,176.0	5,630.0	0.0	5,630.0	454.0	8.8%
Expenditures							
Salaries and Benefits	1,455.4	1,423.0	1,833.0		1,833.0	410.0	28.8%
Program Delivery Expenditures	2,649.0	3,472.0	3,797.0		3,797.0	325.0	9.4%
Total Gross Expenditures	4,104.4	4,895.0	5,630.0	0.0	5,630.0	735.0	15.0%
Net Expenditures	1,187.1	(281.0)	0.0	0.0	0.0	281.0	(100.0%)
Approved Positions	10.0	10.0	13.0		13.0	3.0	30.0%

COSTS TO MAINTAIN EXISTING SERVICES

Total 2020 Base Budget expenditures of \$5.630 million gross reflecting an increase of \$0.735 million in spending above 2019 projected year-end actuals (prior to enhancements), predominantly arising from:

Salaries & Benefits:

- Inflationary increases
- Three (3) additional core positions being added to support the increased services required to invest the federal endowment and to use the proceeds from the enhanced endowment into TAF's services areas

Grants and Programs:

- Additional grants and program allocations based on enhanced endowment

Financial Market Factors:

- Market performance is the key driver of TAF revenues; low Fixed Income/Bond yields will be mitigated by diversifying the portfolio into less interest-rate driven products and Global Equity positions will be reduced in favour of less potentially volatile Direct Investments which are also aligned with TAF's mandate

Prior Year Impacts:

- Renovation undertaken in 2018 is amortized over 5 years

Other Revenue Changes:

- Addition of \$40 million endowment from the Government of Canada is the key driver of TAF's 2020 budget; very conservative assumptions have been made including receiving the funds in Q2 and phased deployment of the asset, initially into bonds and into equities over four quarters

EQUITY IMPACTS OF BUDGET CHANGES

No significant equity impacts: The changes in Toronto Atmospheric Fund's 2020 Operating Budget have minor equity impacts

2021 & 2022 OUTLOOKS**Table 3: 2021 and 2022 Outlooks**

(\$000s)	2019 Projected Actual*	2020 Staff Rec'd Budget	2021 Outlook	2022 Outlook
	\$	\$	\$	\$
Revenues	5,176.0	5,630.0	5,782.0	5,938.1
Gross Expenditures	4,895.0	5,630.0	5,782.0	5,938.1
Net Expenditures	(0.281)	-	-	-
Approved Positions	10.0	13.0	13.0	13.0

Key 2021 drivers**Impacts of 2020 decisions**

- To be determined based on first year of operation with three endowments
- Potential for increased administrative activity to support accountability/reporting for Federal endowment

Salaries and Benefits

- Examine potential for additional two (2) core positions based on endowment capacity and external revenues.

Growth

- Incremental potential for external revenues (donations)

Revenue Changes

- A full year of revenues generated by the three endowments
- Increased revenues from Direct Investments and syndication of Direct Investments anticipated as allocation to this asset class increased, with potential to mitigate against public market variability/volatility
- Potential to attract external revenues (donations) along with Low Carbon Cities Canada (LC3) network

Key 2022 drivers**Salaries and Benefits**

- Examine potential for additional two (2) core positions based on endowment capacity and external revenues.
- Inflationary increases

Inflationary Impact

- TBD

Growth

- Incremental potential for external revenues (donations)

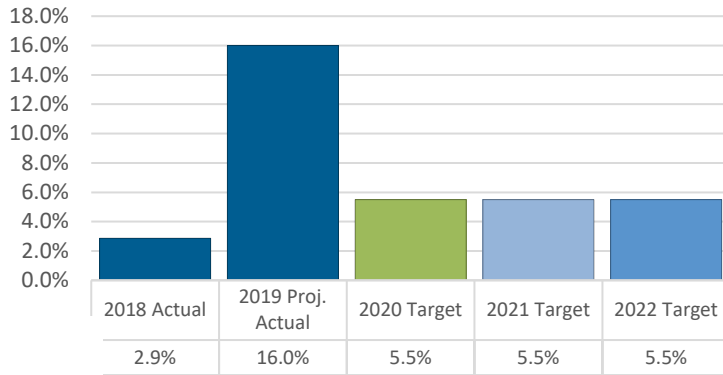
Revenue Changes

- Increased revenues from Direct Investments and syndication of Direct Investments anticipated as allocation to this asset class increased, with potential to mitigate against public market variability/volatility
- Potential to attract external revenues (donations) along with Low Carbon Cities Canada (LC3) network

How well we are doing

Performance measures

Portfolio Average Yield (%)



Behind the numbers

- TAF's marketable investments portfolio had an average return of 8.1% over 2015 - 2018. The annual revenue projection is based on a 5.5% return to be conservative.
- TAF attracts external revenues (donations) for specific projects from various external sources; a conservative assumption has been made for 2020 given the focus on deployment of the new federal endowment.
- TAF maintains a Stabilization Fund – one for each endowment -- to mitigate exposure to the variability of investment earnings from year to year.
- Direct investments are being increased to reduce the portfolio's volatility.
- TAF's total operating budget is within the Payout Ratio established by the Board of between 5-6% of the Net Asset Value, on a 4-year rolling average

APPENDICES

Appendix 1

2020 Staff Recommended Operating Budget by Expenditure Category

N/A

Appendix 2

Summary of 2020 Service Changes

N/A

Appendix 3

Summary of 2020 New / Enhanced Service Priorities Included in Budget

N/A

Appendix 4

Summary of 2020 New / Enhanced Service Priorities Not Included in Budget

N/A

Appendix 5

**2020 Capital Budget;
2021 - 2029 Capital Plan Including Carry Forward Funding**

N/A

Appendix 5a

2020 Cash Flow and Future Year Commitments Including Carry Forward Funding

N/A

Appendix 5b

2021 - 2029 Capital Plan

N/A

Appendix 6

Reporting on Major Capital Projects: Status Update

N/A

Appendix 7

Summary of Capital Needs Constraints

N/A

Appendix 8

2020 User Fee Changes
(Excludes User Fees Adjusted for Inflation)

N/A

Appendix 9

Inflows and Outflows to/from Reserves and Reserve Funds

2020 Operating Budget

N/A

Inflows and Outflows to/from Reserves and Reserve Funds

2020 – 2029 Capital Budget and Plan

N/A

Appendix 10

Glossary of Terms

Approved Position: Permanent or temporary positions that support the delivery of City services and service levels as approved by Council.

Actuals: An actual financial amount paid (or received) for the delivery of City services (these exclude any commitments to be paid in the future).

Capacity to Spend: Ability to spend money along with the capacity to deliver projects as demonstrated by historic spending patterns and approved contractual obligations.

Capital Budget: A Capital Budget is the City's plan to acquire / build assets or extend the useful life of existing assets; an example of a capital expenditure is the construction of a new community centre.

Capital Needs Constraints: The capital needs that cannot be accommodated within the capital plan that the Division or Agency have the capacity to deliver.

Complement: Positions that support the delivery of City services and service levels as approved by Council.

Efficiencies: Reductions in the cost of delivering a service without a reduction in service level.

New / Enhanced: New and enhanced service changes resulting in an increase in service levels from what was previously approved by Council.

Operating Budget: An Operating Budget is the City's annual plan to provide services to the residents of Toronto; the budget includes all revenues and expenses needed to provided services; an example of an operating cost would be the cost to run the TTC subways.

Operating Impact of Completed Capital Projects: The additional expense (or savings) and positions needed to operate or maintain a new asset; an example would be the additional expense and staff needed to operate a recently completed community centre.

Rate Supported Budget: Budget fully funded by user fees such as Solid Waste, Toronto Water and Toronto Parking Authority

Staff Recommended Operating / Capital Budget: An operating or capital budget recommended by City Manager and Chief Financial Officer and Treasurer to City Council for consideration and approval.

State of Good Repair (SOGR): The cost of maintaining assets to ensure they are able to support the delivery of City services and meet service outcomes

Tax Supported Budget: Budget funded by property taxes.

User Fees: Program generated fee and rental revenue for the use of its services (such as the TTC fare, ice rental fees and various City permits).

Value Based Outcome Review (VBOR): The City conducted a Value Based Outcome Review in 2019 for all of its operations and agencies to identify specific opportunities and strategies to maximize the use of tax dollars, enhance its financial sustainability while achieving service outcomes. These opportunities will help the City chart its financial course in the next four years.